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UNCLAS HARARE 002091

SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
TREASURY FOR OREN WYCHE-SHAW
PASS USTR FLORIZELLE LISER
STATE PASS USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A

TAGS: [ECON](#) [EPET](#) [EINV](#) [PGOV](#) [ZI](#)

SUBJECT: GOZ has no money for fuel

¶1. Summary: Oil parastatal NOCZIM has been unable to import fuel for GOZ purposes over the past week. End summary.

¶2. The fuel shortage is affecting Zimbabweans in a variety of ways:

- The National Railway of Zimbabwe (NRZ), a critical cog in the country's economic infrastructure, has cancelled most departures. This increases freight and passenger transport costs 3-5 fold.

- After boarding a flight, Air Zimbabwe told its Saturday morning passengers bound for Bulawayo/Victoria Falls that it had no fuel. They had to wait hours until the beleaguered carrier could borrow fuel from another airline.

- NOCZIM has cut fuel supplies for commuter vans, the GOZ's method of subsidizing public transport. With few vans running, morning and afternoon commutes to high-density suburbs can take 3-4 hours. Embassy national employees report they must sometimes settle for rides with dozens of others in cargo beds of trucks. Desperate commuters literally beg motorists for rides, occasionally blocking traffic.

Comment

¶3. Since Libya's TAMOIL halted shipments to Zimbabwe last year, NOCZIM has been unable to offer subsidized fuel to commercial and retail customers. Until last week, however, the GOZ had managed to keep subsidized fuel flowing to parastatals and, to a lesser degree, commuter vans. The latest shortages may mean the GOZ is experiencing greater difficulties making purchases in hard currency, a consequence of falling export revenue. GOZ policy discourages exports by requiring firms to convert half their revenue at the official rate, a current 43 percent effective tax. Land reform has also taken its toll on export earnings from tobacco and other crops.

¶4. The GOZ has generally prohibited parastatals from cost recovery for services. Mostly, this policy stems from the GOZ's unwillingness to recognize the zimdollar's market exchange rate. The unsupported official rate represents only 15 percent of the zimdollar's market value. Therefore, charges for international phone calls, railway service and electricity are well below parastatal cost. The GOZ has subsidized these public services through export revenue, cheap borrowing (interest rates are over 300 percent negative) and donations (especially, fuel from Libya and electricity from South Africa). It's been a losing battle, and the GOZ has thus far directed parastatals to cut services rather than price them at or above cost.

Sullivan